

**SUPPLEMENTARY SOCIAL INSURANCE  
INFORMATION**



**SUPPLEMENTARY SOCIAL INSURANCE INFORMATION**  
**For the Year Ended September 30, 1999**

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**SOCIAL INSURANCE PROGRAMS**

The Federal Accounting Standards Advisory Board (FASAB) has classified certain government income transfer programs as social insurance programs. Recognizing that these programs have complex characteristics that do not fit traditional accounting models, the FASAB is developing accounting standards for social insurance programs which require the presentation of supplementary information to facilitate the assessment of the program's long term sustainability.

The U.S. Department of Labor operates two programs classified under Federal accounting standards as social insurance programs, the Unemployment Insurance Program and the Black Lung Disability Benefits Program. Presented below is the supplementary information for the two programs.

**UNEMPLOYMENT INSURANCE PROGRAM**

The Unemployment Insurance (UI) Program was created in 1935 to provide income assistance to unemployed workers who have lost their jobs through no fault of their own. The program protects workers during temporary periods of unemployment through the provision of unemployment compensation benefits. These benefits replace part of the unemployed worker's lost wages and, in so doing, stabilize the economy during recessionary periods by increasing the unemployed's purchasing power. The UI program operates counter cyclically, with benefits exceeding tax collections during recessionary periods and UI tax revenues exceeding benefit payments during periods of recovery.

**Program Administration and Funding**

The UI program is administered through a unique system of Federal-State partnerships, established in Federal law but executed through conforming State laws by State officials. The Federal government provides broad policy guidance and program direction through the oversight of the U.S. Department of Labor, while program details are established through individual State UI statutes, administered through State UI agencies.

**Federal and State unemployment taxes**

The UI program is financed through the collection of Federal and State unemployment taxes levied on subject employers and deposited in the Unemployment Trust Fund (UTF). The UTF was established to account for the receipt, investment and disbursement of unemployment taxes. Federal unemployment taxes are used to pay for the administrative costs of the UI program, including grants to each State to cover the costs of State UI operations and the Federal share of extended UI benefits. Federal unemployment taxes are also used to maintain a loan account within the UTF, from which insolvent States may borrow funds to pay UI benefits. State UI taxes are used exclusively for the payment of regular UI benefits, as well as the State's share of extended benefits.

**Federal unemployment taxes**

Under the provisions of the Federal Unemployment Tax Act (FUTA), a Federal tax is levied on covered employers, at a current rate of 6.2% of the first \$7,000 in annual wages paid to each employee. This Federal tax rate is reduced by a credit of up to 5.4%, granted to employers paying State UI taxes under conforming State UI statutes. Accordingly, in conforming States, employers pay an effective Federal tax of 0.8%. Federal unemployment taxes are collected by the Internal Revenue Service.

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State unemployment taxes

In addition to the Federal tax, individual States finance their UI programs through State tax contributions from subject employers based on the wages of covered employees. (Three States also collect contributions from employees). Within Federal confines, State tax rates are assigned in accordance with an employer's experience with unemployment. Actual tax rates vary greatly among the States and among individual employers within a State. At a minimum, these rates must be applied to the Federal tax base of \$7,000; however, States may adopt a higher wage base than the minimum established by FUTA. State UI agencies are responsible for the collection of State unemployment taxes.

**Unemployment Trust Fund**

Federal and State UI taxes are deposited into designated accounts within the Unemployment Trust Fund. The UTF was established under the authority of Title IX, Section 904 of the Social Security Act of 1935, as amended, to receive, hold, invest, loan and disburse Federal and State UI taxes. The U.S. Department of the Treasury acts as custodian over monies deposited into the UTF, investing amounts in excess of disbursing requirements in Treasury securities. The UTF is comprised of the following accounts:

Federal Accounts

The Employment Security Administration Account (ESAA) was established pursuant to Section 901 of the Act. All tax receipts collected under the Federal Unemployment Tax Act (FUTA) are appropriated to the ESAA and used to pay the costs of Federal and State administration of the unemployment insurance program and veterans employment services, as well as 97 percent of the costs of the State employment services. Excess balances in ESAA, as defined under the Act, are transferred to other Federal accounts within the Fund, as described below.

The Federal Unemployment Account (FUA) was established pursuant to Section 904 of the Act. FUA is funded by any excesses from the ESAA as determined in accordance with Section 902 of the Act. Title XII, Section 1201 of the Act authorizes the FUA to loan Federal monies to State accounts that are unable to make benefit payments because the State UI account balance has been exhausted. Title XII loans must be repaid with interest. The FUA may borrow from the ESAA or EUCA, without interest, or may also receive repayable advances, with interest, from the general fund of the U.S. Treasury, when the FUA has a balance insufficient to make advances to the States.

The Extended Unemployment Compensation Account (EUCA) was established pursuant to Section 905 of the Act. EUCA provides for the payment of extended unemployment benefits authorized under the Federal-State Extended Unemployment Compensation Act of 1970, as amended. Under the extended benefits program, extended unemployment benefits are paid to individuals who have exhausted their regular unemployment benefits. These extended benefits are financed one-half by State unemployment taxes and one-half by FUTA taxes from the EUCA. The EUCA is funded by a percentage of the FUTA tax transferred from the ESAA in accordance with Section 905(b)(1) and (2) of the Act. The EUCA may borrow from the ESAA or the FUA, without interest, or may also receive repayable advances from the general fund of the Treasury when the EUCA has a balance insufficient to pay the Federal share of extended benefits. During periods of sustained high unemployment, the EUCA may also receive payments and non-repayable advances from the general fund of the Treasury to finance emergency unemployment compensation benefits. Emergency unemployment benefits require Congressional authorization.

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The Federal Employees Compensation Account (FECA) was established pursuant to Section 909 of the Act. The FEC Account provides funds to States for unemployment compensation benefits paid to eligible former Federal civilian personnel and ex-service members. Generally, benefits paid are reimbursed to the Federal Employees Compensation Account by the various Federal agencies. Any additional resources necessary to assure that the account can make the required payments to States, due to the timing of the benefit payments and subsequent reimbursements, will be provided by non-repayable advances from the general fund of the Treasury.

State Accounts

Separate State Accounts were established for each State and territory depositing monies into the Fund, in accordance with Section 904 of the Act. State unemployment taxes are deposited into these individual accounts and may be used only to pay State unemployment benefits. States may receive repayable advances from the FUA when their balances in the Fund are insufficient to pay benefits.

Railroad Retirement Accounts

The Railroad UI Account and Railroad UI Administrative Account were established under Section 904 of the Act to provide for a separate unemployment insurance program for railroad employees. This separate unemployment insurance program is administered by the Railroad Retirement Board, an agency independent of DOL. DOL is not responsible for the administrative oversight or solvency of the railroad unemployment insurance system. Receipts from taxes on railroad payrolls are deposited in the Railroad UI Account and the Railroad UI Administrative Account to meet benefit payment and related administrative expenses.

**UI program benefits**

The UI program provides regular and extended benefit payments to eligible unemployed workers. Regular UI program benefits are established under State law, payable for a period not to exceed a maximum duration. In 1970, Federal law began to require States to extend this maximum period of benefit duration by fifty percent during periods of high unemployment. These extended benefit payments are paid equally from Federal and State accounts.

Regular UI benefits

There are no Federal standards regarding eligibility, amount or duration of regular UI benefits. Eligibility requirements, as well as benefit amounts and benefit duration are determined under State law. Under State laws, worker eligibility for benefits depends on experience in covered employment during a past base period, which attempts to measure the workers' recent attachment to the labor force. Three factors are common to State eligibility requirements: (1) a minimum duration of recent employment and earnings during a base period prior to unemployment, (2) unemployment not the fault of the unemployed, and (3) availability of the unemployed for work.

Benefit payment amounts under all State laws vary with the worker's base period wage history. Generally, States compute the amount of weekly UI benefits as a percentage of an individual's average weekly base period earnings, within certain minimum and maximum limits. Most States set the duration of UI benefits by the amount of earnings an individual has received during the base period. Currently, all States have established the maximum duration for regular UI benefits at 26 weeks. Regular UI benefits are paid by the State UI agencies from monies drawn down from the State's account within the Unemployment Trust

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Fund.

Extended UI benefits

The Federal/State Extended Unemployment Compensation Act of 1970 provides for the extension of the duration of UI benefits during periods of high unemployment. When the insured unemployment level within a State, or in some cases total unemployment, reaches certain specified levels, the State must extend benefit duration by fifty percent, up to a combined maximum of 39 weeks. Fifty percent of the cost of extended unemployment benefits is paid from the Extended Unemployment Compensation Account within the UTF, and fifty percent by the State, from the State's UTF account.

Emergency UI benefits

During prolonged periods of high unemployment, Congress may authorize the payment of emergency unemployment benefits to supplement extended UI benefit payments. Emergency benefits were last authorized in 1991 under the Emergency Unemployment Compensation Act. Emergency benefit payments in excess of \$28 billion were paid over the three year period ending in 1994. Emergency benefits were paid from the surplus of Federal unemployment taxes in EUCA, and, once EUCA balances were exhausted, from general revenues of the U.S. Treasury.

Federal UI benefits

Unemployment benefits to unemployed Federal workers are paid from the Federal Employment Compensation Account within the Unemployment Trust Fund. These benefit costs are reimbursed by the responsible Federal agency and are not considered to be social insurance benefits. Federal unemployment compensation benefits are not included in this discussion of social insurance programs.

**Program Finances and Sustainability**

At September 30, 1999, total assets within the UTF exceeded liabilities by \$78.4 billion. This fund balance approximates the accumulated surplus of tax revenues and earnings on these revenues over benefit payment expenses and is available to finance benefit payments in future periods when tax revenues may be insufficient. Treasury invests this accumulated surplus in Federal securities. The net value of these securities at September 30, 1999 was \$77.4 billion. These investments accrue interest, which is distributed to eligible State and Federal accounts within the UTF. Interest income from these investments during FY 1999 was \$4.9 billion. Federal and State UI tax and reimbursable revenues of \$26.5 billion and regular and extended benefit payment expense of \$20.4 billion were recognized for the year ended September 30, 1999.

As discussed in Note 1.L.1 to the consolidated financial statements, DOL recognized a liability for regular and extended unemployment benefits to the extent of unpaid benefits applicable to the current period. Accrued unemployment benefits payable at September 30, 1999 were \$333.6 million.

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**Effect of Projected Cash Inflows and Outflows on the Accumulated Net Assets of the UTF**

The ability of the UI program to meet a participant's future benefit payment needs depends on the availability of accumulated taxes and earnings within the UTF. The Department measures the effect of projected benefit payments on the accumulated net assets of the UTF, under an open group scenario, which includes current and future participants in the UI program. Future estimated cash inflows and outflows of the UTF are tracked by the Department for budgetary purposes. These projections allow the Department to monitor the sensitivity of the UI program to differing economic conditions, and to predict the program's sustainability under varying economic assumptions.

Presented on the following pages is the effect of projected economic conditions on the net assets of the UTF, excluding the Federal Employees Compensation Account.

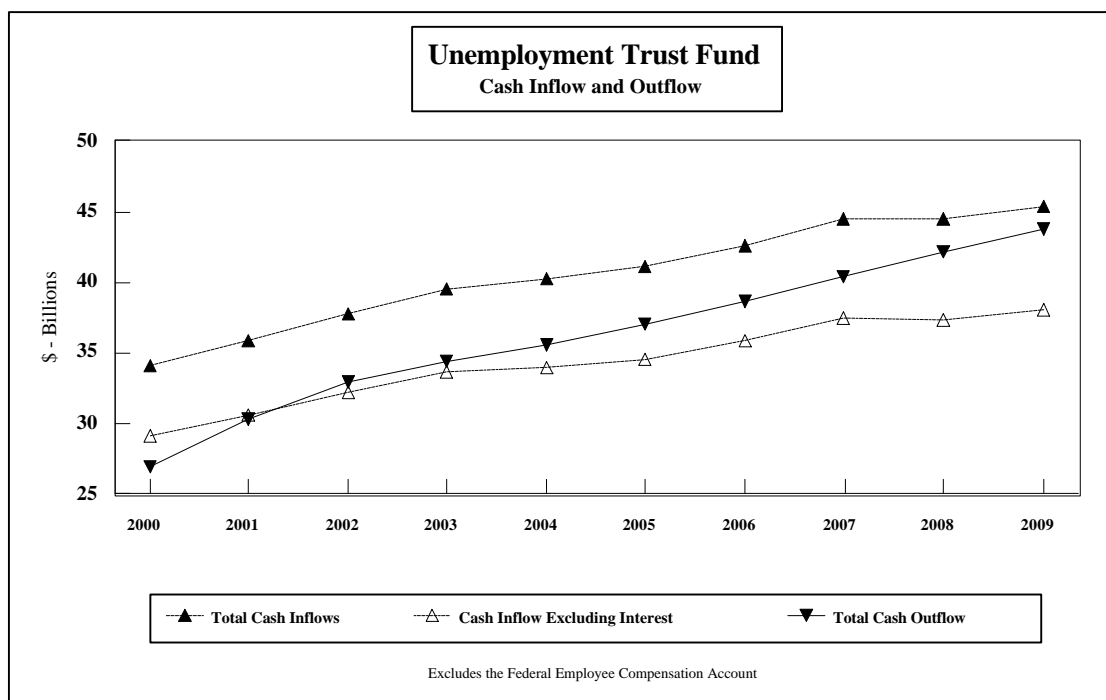
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Charts I and II graphically depict the effect of expected economic conditions on the UTF over the next ten years.

Projected Cash Inflows and Outflows Under Expected Economic Conditions

Chart I depicts projected cash inflows and outflows of the UTF over the next ten years, under expected economic conditions. Total cash inflows as well as cash inflows excluding interest earnings are displayed. Current estimates by the Department are based on an expected unemployment rate of 4.45% during FY 2000, increasing to 5.20% in FY 2003 and thereafter. These projections, excluding interest earnings, indicate net cash inflows through FY 2001, with a crossover to net outflows in FY 2002. Cash inflows combined with interest earnings exceed cash outflows for each of the ten years presented, although this net excess decreases from \$7.2 billion at the end of FY 2000 to \$1.6 billion at the end of FY 2009.

Chart I





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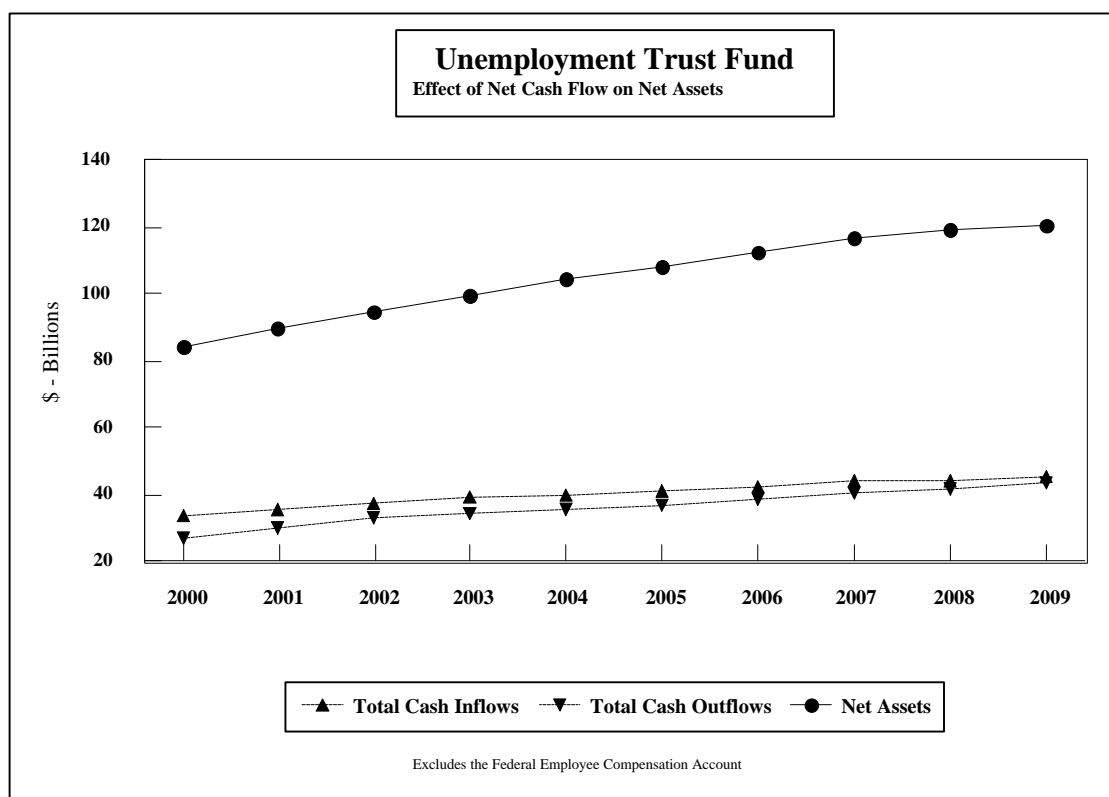
#### Effect of Projected Cash Inflows and Outflows on the Accumulated Net Assets of the UTF - Continued

##### Effect of Expected Cash Flows on UTF Assets

Chart II demonstrates the effect of these expected cash inflows and outflows on the net assets of the UTF over the ten year period ended September 30, 2009. Yearly projected total cash inflows, including interest earnings, and cash outflows are depicted, as well as the net effect of this cash flow on UTF assets.

Total cash inflows exceed cash outflows in each of the ten years projected, although the margin of excess decreases by 78% from FY 2000 to FY 2009. Net UTF assets increase by 56% over the ten year period, from \$77.4 billion at the beginning of FY 2000 to \$120.8 billion in FY 2009.

Chart II



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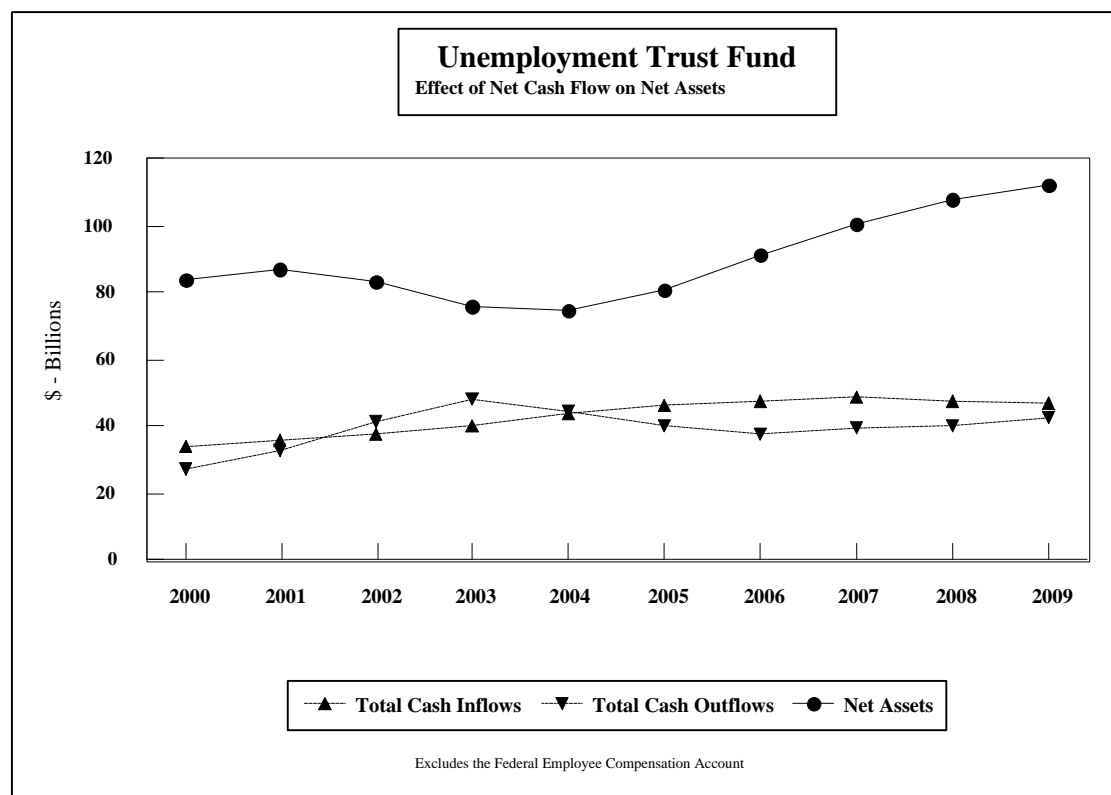
**Recessionary Scenarios**

Charts III and IV demonstrate the effect on accumulated UTF assets of projected total cash inflows and cash outflows of the UTF over the ten year period ending September 30, 2009, under moderate and severe recession scenarios. Each scenario uses an open group, which includes current and future participants in the UI program. Charts III and IV assume increased rates of unemployment during mild and deep periods of recession.

Effect on UTF Assets of Mild Recession

The Department projects the effect of moderate recession on the cash inflows and outflows of the UTF. Under this scenario, which utilizes a rising unemployment rate peaking at 7.43% in FY 2003, net cash outflows are projected to begin in FY 2002, increasing to a maximum of \$7.6 billion in FY 2003. Net cash inflows are reestablished in FY 2005 with a drop in the unemployment rate to 6.35%.

Chart III



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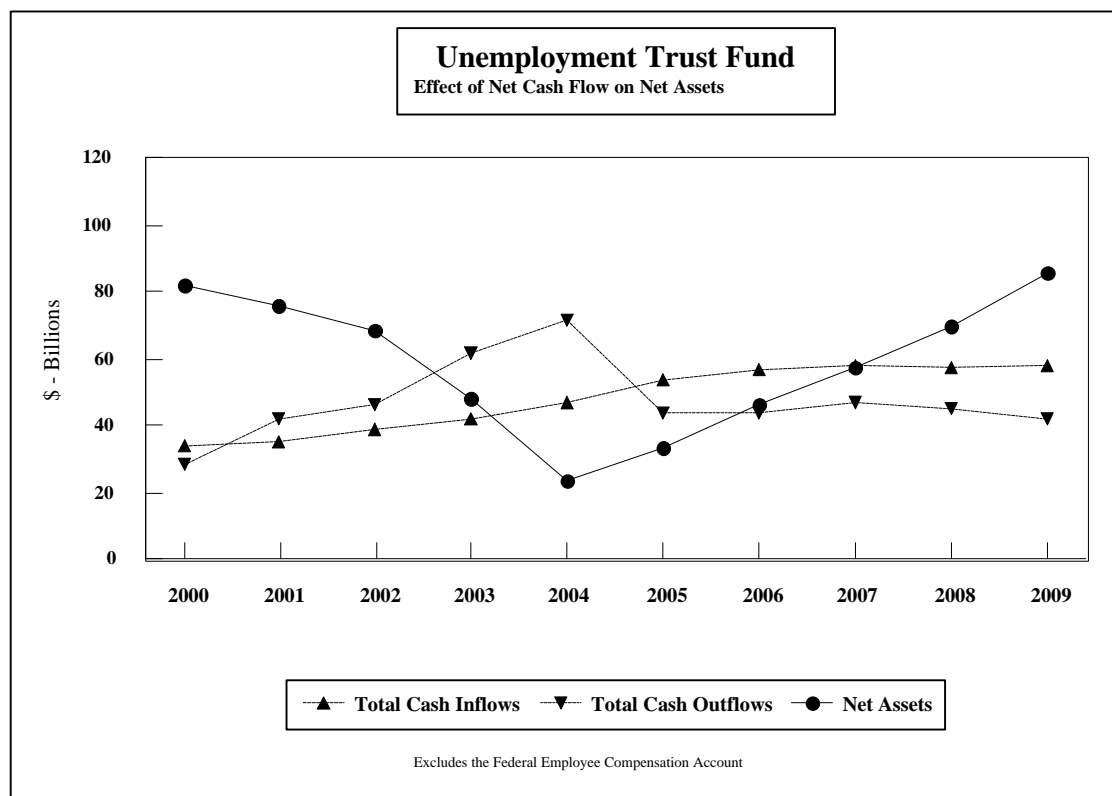
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#### Effect on UTF Assets of Deep Recession

The Department also estimates the effect of severe recession on the cash inflows and outflows of the UTF. This scenario assumes a rising unemployment rate peaking at 10.15% in FY 2004. Under this scenario, net cash outflows are projected to begin in FY 2001, increasing to \$24.7 billion in FY 2004. During this four year period the net assets of the UTF decrease from \$82.4 billion to \$23.8 billion, a decline of \$58.6 billion (71%). While aggregate UTF balances remain positive, State accounts without sufficient reserve balances to absorb negative cash flows would be forced to borrow funds from the FUA to meet benefit payment requirements. State borrowing demands could also deplete the FUA, which borrows from the ESAA and the EUCA until they are depleted. The FUA would then require advances from the general fund of the U.S. Treasury to provide for State borrowings. (See discussion of State solvency measures following.)

Net cash inflows are reestablished early in FY 2005, with a drop in the unemployment rate to 7.82%. By the end of FY 2009, this positive cash flow has replenished UTF account balances to \$85.6 billion, or more than \$3.2 billion higher than the FY 2000 peak. This example demonstrates the counter cyclical nature of the UI program, which experiences net cash outflows during periods of recession, to be replenished through net cash inflows during periods of recovery.

Chart IV



Tables containing the total yearly cash inflow, interest earnings and cash outflow for each scenario are presented in the

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following pages.

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**States Minimally Solvent**

Another measure of the sufficiency of accumulated UTF assets to meet benefit future benefit payment requirements analyzes the adequacy of each State's accumulated net assets or reserve balance to provide a defined level of benefits over a defined period of time. To be considered minimally solvent, a State's reserve balance should provide for one year's projected benefit payment needs based on the highest level of benefit payments experienced by the State. A ratio of 1.0 or greater indicates a state is minimally solvent. States below this level are the most vulnerable to exhausting their funds in a recession. States exhausting their reserve balance must borrow funds from the Federal Unemployment Account (FUA) to make benefit payments. During periods of high sustained unemployment, balances in the FUA may be depleted. In these circumstances, FUA is authorized to borrow from the Treasury general fund.

Chart V presents the State by State results of this analysis at September 30, 1999, in descending order, by ratio. As the table illustrates, 19 states failed to maintain minimal solvency ratios at September 30, 1999.

Chart V

Minimally Solvent		Not Minimally Solvent	
State	Ratio	State	Ratio
Virgin Islands	3.19	Washington	0.99
New Mexico	2.74	Tennessee	0.97
Vermont	2.53	Maryland	0.95
Delaware	2.11	South Dakota	0.87
New Hampshire	2.09	Rhode Island	0.85
Georgia	2.01	Kentucky	0.81
Mississippi	1.92	California	0.79
Utah	1.75	Alabama	0.76
Arizona	1.75	Michigan	0.71
Wyoming	1.65	Pennsylvania	0.70
Florida	1.63	Arkansas	0.70
Oklahoma	1.63	Missouri	0.66
Indiana	1.54	Ohio	0.65
Oregon	1.41	Minnesota	0.61
Virginia	1.40	Illinois	0.52
Louisiana	1.36	West Virginia	0.47
Montana	1.35	Texas	0.29
South Carolina	1.33	New York	0.28
Puerto Rico	1.32	North Dakota	0.25
Hawaii	1.32		
Iowa	1.22		
Nebraska	1.13		
Wisconsin	1.12		
Colorado	1.12		
New Jersey	1.11		
Maine	1.10		
North Carolina	1.09		
Nevada	1.08		
Connecticut	1.06		
Massachusetts	1.06		
District of Columbia	1.05		
Idaho	1.03		
Alaska	1.01		
Kansas	1.01		

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**BLACK LUNG DISABILITY BENEFIT PROGRAM**

The Black Lung Disability Benefit Program provides for compensation, medical and survivor benefits for eligible coal miners who are disabled due to pneumoconiosis (black lung disease) arising out of their coal mine employment. The U.S. Department of Labor operates the Black Lung Disability Benefit Program. The Black Lung Disability Trust Fund (BLDTF) provides benefit payments to eligible coal miners disabled by pneumoconiosis when no responsible mine operator can be assigned the liability.

**Program administration and funding**

Black lung disability benefit payments are funded by excise taxes from coal mine operators based on the sale of coal, as are the fund's administrative costs. These taxes are collected by the Internal Revenue Service and transferred to the BLDTF, which was established under the authority of the Black Lung Benefits Revenue Act, and administered by the U.S. Department of the Treasury. The Black Lung Benefits Revenue Act provides for repayable advances to the BLDTF from the general fund of the Treasury, in the event that BLDTF resources are not adequate to meet program obligations.

**Program finances and sustainability**

At September 30, 1999, total liabilities of the Black Lung Disability Trust Fund exceeded assets by \$6.3 billion. This deficit fund balance represented the accumulated shortfall of excise taxes necessary to meet benefit payment and interest expenses. This shortfall was funded by repayable advances to the BLDTF, which are repayable with interest. Outstanding advances at September 30, 1999 were \$6.3 billion, bearing interest rates ranging from 5.625 to 13.875 percent. Excise tax revenues of \$595.5 million, benefit payment expense of \$433.5 million and interest expense of \$515.0 million were recognized for the year ended September 30, 1999.

As discussed in Note 1.L.2, DOL recognized a liability for disability benefits to the extent of unpaid benefits applicable to the current period. Accrued disability benefits payable at September 30, 1999 were \$32.7 million. Although no liability was recognized for future payments to be made to present and future program participants, beyond the due and payable amounts accrued at year end, future estimated cash inflows and outflows of the BLDTF are tracked by the Department for budgetary purposes.

These projections, made over the forty-one year period ending September 30, 2040, indicate that cash inflows from excise taxes will exceed cash outflows for benefit payments and administrative expenses for each period projected. Cumulative net cash inflows are projected to reach \$15.1 billion by the year 2040. However, when interest payments required to finance the BLDTF's repayable advances are applied against this surplus cash inflow, the BLDTF's cash flow turns negative during each of the forty one periods included in the projections. Net cash outflows after interest payments are projected to reach \$26.6 billion by the end of the year 2040, increasing the BLDTF's deficit to \$35.0 billion at September 30, 2040. (See Chart I on following page.)

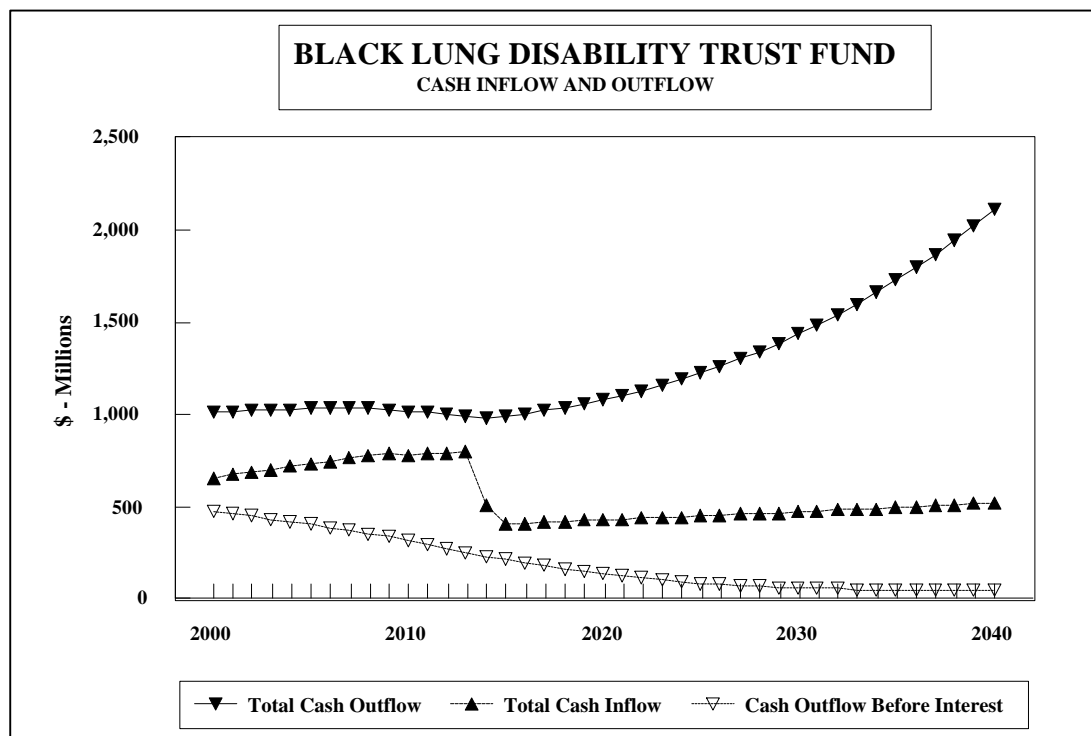


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Chart I



The projected decrease in cash inflows in the year 2014 and thereafter is the result of a scheduled reduction in the tax rate on the sale of coal. This rate reduction is projected to result in a forty nine percent decrease in the amount of excise taxes collected between the years 2013 and 2015. The cumulative effect of this change is estimated to be in excess of \$12.6 billion by the year 2040.

Yearly cash inflows and outflows are presented in the table on the following page.

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Table is contained in a separate file. [Click here to follow link to "Page 6.18"](#)